Annual Report for the year ended January 29, 1977

The Stop & Shop Companies

Stop & Shop

Bradlees

Medi Mart

Manufacturing

Perkins

Officers

Annual Meeting:
June 7, 1977 at 1:30 P.M. at The First National Bank of Boston, First Floor Auditorium, 100 Federal St., Boston, Massachusetts 02110.
Transfer Agent:
The First National Bank of Boston
Registrar:
The National Shawmut Bank of Boston
Auditor:
Peat, Marwick, Mitchell & Company
Counsel:
Goodwin, Procter & Hoar,
Sherin & Lodgen
General Offices:
P.O. Box 369, Boston, Massachusetts 02101
Shares Traded on:
Boston Stock Exchange
New York Stock Exchange
Automatic Dividend Reinvestment Plan
The Company's transfer agent offers an Automatic Dividend Reinvestment and Cash Stock Purchase Plan which gives shareholders a convenient, inexpensive method of purchasing additional shares of Stop & Shop stock with quarterly dividends and optional cash investments.
For further details write:
First National Bank of Boston
Automatic Dividend Reinvestment and Cash Stock Purchase Plan
P.O. Box 1681
Boston, MA 02105

10•K
Copies of Form 10-K, to be filed with the Securities and Exchange Commission, are available without charge by application to: Director of Media Relations, The Stop & Shop Companies, Inc., P.O. Box 369, Boston, Massachusetts 02101

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The Stop & Shop Companies, Inc.
Sidney R. Rabb, Chairman of the Board and Chief Executive Officer*
Irving W. Rabb, Vice Chairman of the Board and Chairman, Executive Committee*
Avram J. Goldberg, President and Chief Operating Officer*
Albert S. Frager, Treasurer and Chief Financial Officer*
Frank A. Crowley, Vice President, Real Estate
Anthony DiNardo, Vice President, Personnel and Marketing Services
Stephen C. Espo, Vice President, Distribution and Information Systems
Daniel Donegan, Vice President, Distribution
Harold E. Fine, Vice President, Construction and Engineering*
J. David Fine, Vice President, Labor Relations
Myles Hannan, Vice President
Bernard Solomon, Vice President, Civic, Government and Community Affairs
Richard F. Spears, Vice President*
Louis P. Steinberg, Vice President, Advertising, Design and Sales Promotion
Arthur S. Robbins, Vice President, Accounting and Assistant Treasurer*
Joseph D. McGlinchey, Controller*
Carmen J. Gentile, Assistant Treasurer*
Donald J. Hurley, Secretary and Clerk*
Stop & Shop Supermarket Company
Sidney L. Goldstein, President
Anast W. Giokas, Vice President, Sales
Spyros A. Gavris, Vice President, Meat Operations
Ralph J. Lordi, Vice President, Director of Grocery Purchasing
Richard H. Donlan, Vice President and General Manager, New Jersey Division
Edmund J. Rozumek, Vice President and General Manager, Boston Division
Lewis G. Schaeneman, Jr., Vice President and General Manager, Connecticut Division
Donald W. Stowbridge, Vice President, Stores Operations
General Merchandise Companies
Robert J. Levin, Group Vice President
Bradlees Department Store Company
Harold Frank, President
Martin Baker, Vice President, Marketing
Raymond J. Doyle, Vice President and Merchandise Controller
Philip J. Hiscock, Vice President, Market Management
C. Robert Peacock, Vice President, Operations and Accounting
Sylvia P. Shaine, Vice President and General Merchandise Manager
Medi Mart Drug Store Company
Seymour L. Silverstein, Vice President and General Manager
Charles B. Perkins Tobacco Shops
Timothy A. Hays, Vice President and General Manager
Stop & Shop Manufacturing Company
Carol R. Goldberg, President
Arthur Norris, Vice President, Technological Development and Quality Control*
Blaine B. Breidenstein, Vice President, Marlborough Meat Processing Facility
Bernard A. Goldman, Vice President, Manufacturing Division
E. L. Nason Co. Inc. and Fargo Potato Company
Philip Lane, General Manager

*Corporate Officer

Comparative Highlights

	52 Weeks Ended January 29, 1977 (In Thousands)	52 Weeks Ended January 31, 1976 (In Thousands)
Sales	$1,474,872	$1,359,776
Earnings:		
Net Earnings	11,408	14,513
% of Net Earnings to Sales	.77%	1.07%
Net Earnings Per Share	2.88	3.68
Dividends:		
Cash Dividends Paid	3,961	3,312
Per Share of Common Stock	1.00	.84
Common Stock Distribution (5 for 4 split)	—	25%
Working Capital	65,054	55,482
Current Ratio	1.69 to 1	1.57 to 1
Stockholders' Equity	100,633	92,935
Book Value Per Share	25.37	23.56

Per Share of Common Stock

	Earnings		Dividends		Market Price	
	1976	1975	1976	1975	1976	1975
First 16 Weeks	$ .34	$ .54	$ .25	$.20	$ 21-17⅞	$13⅛-10¼
Second 12 Weeks	.32	.60	.25	.20	18⅜-15⅛	16⅛-11⅝
Third 12 Weeks	.34	.76	.25	.22	16-14⅛	16⅜-12⅞
Fourth 12 Weeks	1.88	1.78	.25	.22	16¼-13¼	18⅜-14
	$2.88	$3.68	$1.00	$.84		

Per share amounts for 1975 adjusted to reflect a 5 for 4 stock split-up paid April 1, 1976.

Letter to Stockholders

Senior Management: Sidney R. Rabb, Avram J. Goldberg, Irving W. Rabb.

The Company's performance in 1976 reflects the fact that The Stop & Shop Companies, Inc. is now a fully diversified retailer. Long dependent upon our supermarket business for the major portion of our profits, in 1976 we were able, despite an off-year in our supermarkets, to record the second highest earnings in our history, exceeded only by the record performance of 1975.

For the first time since we acquired Bradlees 16 years ago and began development of the General Merchandise arm of our business, we are separately setting forth in this annual report profit contribution by major category: Food and General Merchandise. (See page 14.)

This table shows with striking effect the increasing importance to the Company of our General Merchandise divisions which achieved record profits in 1976. Stop & Shop supermarkets continue to be our strong roots and trunk; but Bradlees, Medi Mart and Perkins are vigorous and growing branches.

Sales for fiscal 1976 were $1,474,872,000, compared to sales of $1,359,776,000 in the prior year. Net operating income was $11,408,000, compared to net operating income of $14,513,000 in the prior year.

Operating earnings in 1976 were $2.88 a share, compared to operating earnings of $3.68 a share in 1975.

In 1976, Food accounted for 69 percent of sales, or $1,013,134,000 (our first billion dollar year in Food!) and General Merchandise 31 percent, or $461,738,000. In terms of Operating Profit Contribution, however, General Merchandise accounted for 62 percent and Food 38 percent.

This is in contrast to the record prior year, when sales of Food and General Merchandise were in roughly the same proportion, but Operating Profit Contribution was more balanced.

Net Sales	1976	1975
	(In Thousands)	
Stop & Shop Supermarkets	$1,013,135	$ 978,566
Bradlees Department Stores, exclusive of licensees' sales	392,441	324,072
Medi Mart Drug Stores	58,495	47,619
Charles B. Perkins Tobacco Shops	10,801	9,519
TOTAL:	$1,474,872	$1,359,776

While of course we would have preferred to have both arms of the business achieve record profits, we believe that the year's results demonstrate the solid base of earning power which we sought to achieve by the expansion of Bradlees and Medi Mart.

Looking back on the year, we can identify a number of important factors which affected our performance.

All of us will remember 1976 as a year of exuberant celebration of our Nation's Bicentennial, as we returned to something like normalcy after the shock of Watergate and the agony of Vietnam.

People dressed up for the occasion and brightened their homes. They explored more fully than ever the opportunities for leisure time activities.

In the wake of the visit of the "Tall Ships" to New York, Newport, Boston and other Atlantic ports, we saw record sales of film and photo processing through our Photo Lab.

At the same time, the Country was recovering from the recession of 1974 and 1975, a recovery which triggered release of pent-up demand for durable goods.

The results were extremely positive for Bradlees, Medi Mart and Perkins, our General Merchandise Group.

Throughout the year Bradlees merchants demonstrated an increasingly sophisticated ability to respond to developing consumer trends. They kept their inventories lean through a mid-year slump in men's and women's apparel sales and through the dislocations caused by the bitter weather of the 1976–77 winter.

A consistent advertising program featured weekly, chain-wide brochures, and, of course, Mrs. "B" on radio and television.

One result was a new high in sales per square foot for Bradlees.

Medi Mart was quick to respond to the ruling in June by the United States Supreme Court which struck down the barriers to advertising of prescription drug prices and developed a series of imaginative, price-oriented newspaper ads. The newspaper series was supplemented by radio which emphasized the concept of Medi Mart as the "super-drugstore."

A continuing emphasis on competitive pricing carried Perkins through a slump in the early part of the year, the softness a result of consumer buying restraint. Perkins recorded strong sales in the key holiday season, through a combination of prices and attractive merchandising.

For our Supermarket Company, 1976 was a year of intense price competition which depressed margins, and soaring costs which far exceeded the modest inflation in food prices. We concentrated our efforts on protecting our share of the business. The lower profits realized reflect this environment and our strategy. As the year ended, the Supermarket Company began to see a strengthening of volume and some favorable price movements. Our Supermarket Company is well positioned to take full advantage of any improvement in the competitive scene.

In early January of this year, after a careful study of the potential for further growth and development, we established the Stop & Shop Manufacturing Company, with Carol R. Goldberg as President.

The new Manufacturing Company will be the vehicle for responding to the challenge of producing goods for the food service industry (to other retail companies, restaurants, fast food chains, hotels, wholesalers etc., etc.).

In her new position, Mrs. Goldberg will have responsibility for our Marlboro Meat Processing Plant and our Manufacturing Division, including the Bakery, Commissary, Dairy and Photo Finishing Lab, as well as Corporate Quality Control and Technological Development.

In the competitive climate of 1976, many retailers resorted to extended hours and Sunday openings to build volume.

By year's end most of our foodstores in New Jersey, New York and Connecticut were opening on Sunday in response to competitor action. At Christmas-time, Bradlees, again in response to competition, opened many of its stores on the Sundays immediately preceding the holiday.

The issue is too involved in economics, local mores and personal or religious preference to warrant extensive exploration here.

We set forth our position in a "Never on Sunday" ad which appeared in major newspapers throughout our operating area. The ad summarized the economic factors involved, and concluded: "Even with the premium pay, many of our people do not like working on Sunday and being away from their families."

We testified to that effect before a committee of the Massachusetts Legislature considering repeal of the "Blue Laws" and we have submitted statements of opposition to a similar move in Connecticut.

Sunday openings was only one of the public issues which engaged our attention during 1976.

In Massachusetts, we joined in the public debate on a referendum to ban non-returnable bottles and cans.

Our Consumer Affairs department developed a carefully thought out position paper on why we favor "resource recovery" over a ban on non-returnables. We supported an industry newspaper ad opposing the Massachusetts referendum on the grounds of sanitation, job loss, and increased costs.

The Massachusetts referendum was defeated, but by the narrowest of margins (20,000 votes in more than 2,400,000 cast) and the battle will be fought again in the 1977 Massachusetts Legislature.

We were very much aware throughout the "bottle bill" debate that many of our customers are on the other side of the issue.

We continue to oppose a ban on non-returnables, taking care that in disagreeing we never become disagreeable.

Finally, in the public area, our President, Avram Goldberg supported Governor Michael Dukakis of Massachusetts in a press conference called to set forth reasons for voting against a referendum on "flat rate" electricity. "Flat rate" electricity would have added $1,200,000 to our energy costs in its first year, but the proposal was defeated resoundingly.

As all of you know, coffee was the "commodity" issue of 1976, with wholesale prices doubling, then tripling and continuing to rise into 1977.

Our buyers and Consumer Affairs people spotted the trend early, and in June of 1976, long before the coffee situation "went public", we posted signs advising our customers to "rethink" their need for coffee and consider such substitutes as tea, cocoa or bouillon.

Our early enlistment in the campaign to redress the extraordinary imbalance between supply and demand was noted by a number of major publications, among them Time, Newsweek and The New York Times, and by television's "Today" show, as well.

The problems caused by weather in the Northeast were compounded by the freeze which damaged much of the Florida winter crop of vegetables and a substantial part of the citrus crop.

Our people responded to this crisis, reaching to Mexico and California for the tomatoes and green vegetables needed to fill consumer demand.

Although it is impossible to determine the effects of weather with total accuracy, we do know the winter of 1976–77 had a negative effect on our profitability. Snow removal costs alone were more than double what we had budgeted and utility costs were up substantially despite intensive conservation efforts.

To the great credit of our people, we coped with the problems posed by the most bitter January ever in the Northeast. Our parking lots were plowed, our trucks made their scheduled deliveries (sometimes a little late), no serious out-of-stock conditions developed, and our people showed up for work.

The bad weather had a silver lining, however. Consumers ate more meals at home during this time. which in turn meant more business for our supermarkets.

Our construction and remodeling program has gone forward as scheduled. In the year we opened two new supermarkets and remodeled nine; we opened six new Bradlees (two of them former W. T. Grant's stores) and remodeled five; opened four new Medi Marts, and one new Perkins mall store, as well as four Perkins departments in Bradlees.

In 1977 we expect to open six new Supermarkets—three in Massachusetts, two in New Jersey and one in Connecticut, and four Medi Marts, two in Massachusetts, one in New Jersey and one in Connecticut. As mentioned in our last year's report, we paused in our expansion of Bradlees to digest the stores opened in 1976. We are now aggressivly looking for sites. 1977 will also see a continuation of our program of updating our existing stores to meet the needs of the communities they serve.

In June, we completed a new note agreement with Prudential Insurance Company of America, both to refinance our existing long-term debt with Prudential and to finance our capital expenditure program.

The new note is in a total amount of $66,225,000, at an annual interest rate of 9.4 percent, repayable in equal semi-annual installments beginning in 1978, with maturity in 1994. We used $35,000,000 of the proceeds to retire the existing note held by Prudential. We received $11,225,000 of the remainder in June, $10,000,000 more in February and will receive a final $10,000,000 this August.

For the second straight year, we made no short-term borrowings, and continued our extensive cash management program. We will carefully husband the proceeds of the Prudential loan, investing only in priority projects offering an adequate return on investment.

To relieve serious overcrowding at our offices on D Street in Boston, we moved some of our administrative people into 60,000 square feet of space in the State Street South Building, on the Boston-Quincy line.

Statistics in retailing sometimes seem to be overwhelming, and each year "information" becomes more and more important to the operation of a successful company.

In the past few years, we have given increasing emphasis to our Information Systems Division in order to insure a capacity to meet the needs of the future. One stage of that development is the moving of our Systems people to State Street South, to provide a more functional setting for them and for the new 370/158 computer with which they will be working. The move will be completed by the time you read this report.

One of the more exciting projects in the computer area is what we call CORDS, or the Corporate Ordering, Replenishment and Distribution System. CORDS will offer all of our stores much greater flexibility in computerized ordering of product from any one of our various distribution centers.

Merchandise deliveries will be recorded into the computer system immediately upon receipt. This will give stores instant access to the inventory, allowing a significant improvement in our in-stock position. The system is designed to meet the distribution needs of all of our operating companies for many years to come.

In view of proposals to regulate application of the Universal Product Code and "scanning" by legislation or agency action at both the Federal and state levels, we have deferred immediate expansion of our own UPC-scanning program. We are continuing our testing and are learning as much as possible about the electronic scanning system during this period of uncertainty.

We are continuing installation of Electronic Cash Registers, which are essentially computer terminals, and at year's end 53 Supermarkets and 16 Bradlees were so equipped.

Security and Loss Prevention continue to be a primary objective, with our major thrust in the year the establishment of companywide committees of our people in the stores and distribution facilities working in a common effort to reduce loss. We can report that the percentage of sales lost to pilferage, shoplifting, etc. in 1976 was the lowest in recent years.

In the year we completed negotiations with unions representing our people in the stores, distribution centers and manufacturing facilities. The result was a total of 16 new contracts, most of them running through late 1978 or mid-1979.

In January of 1977 we joined the Joint Labor Management Committee of the retail food industry, whose goals are to achieve fair and equitable non-inflationary contract settlements.

JLMC's statement of objectives sets forth that "we (the food industry) have a mutual interest in exhibiting to the public that labor and management in the retail food industry are engaging in responsible collective bargaining with an overview of minimizing food price inflation."

One of the pleasing aspects of writing this letter to stockholders is the reporting of appointments and promotions of people to or within The Stop & Shop Companies. As previously reported, Robert J. Levin has been wearing two hats for more than a year now as Group Vice President for the General Merchandise Companies (Bradlees, Medi Mart and Perkins), and as acting head of Bradlees. The appointment of Harold Frank as President of Bradlees was made in February of 1977.

In his remarks to the stockholders at the last annual meeting, Avram Goldberg pledged that in choosing a new president for Bradlees "we are determined to select someone who will help us move to still higher plateaus of performance and profitability." We are confident we have found that person in Harold Frank, who was Executive Vice President of Federated Department Stores' Gold Circle Division in Columbus, Ohio and had been with Abraham & Straus of New York for 25 years.

Edmund J. Rozumek, General Sales Manager of the Boston Supermarket Division, was named Vice President and General Manager of the Division, succeeding Carol Goldberg. Dr. Blaine B. Breidenstein, who has been a key figure in the development of our Marlboro Meat Processing Facility, was appointed to the new position of Divisional Vice President, Marlboro.

It is appropriate to end this letter on this note, talking about people, since people have always been our most important asset, and it is with great pride on our part that on their behalf, we thank you, our Stockholders, for your continued support and encouragement.

Sidney R. Rabb
Chairman of the Board

Avram J. Goldberg
President

Reports from Our Companies

Presidential Staff during one of its regular meetings with President Avram J. Goldberg. From bottom, clockwise: Albert S. Frager, Sidney L. Goldstein, Bernard Solomon, J. David Fine, Mr. Goldberg, Robert J. Levin, Stephen C. Espo, Arthur Norris, Carol R. Goldberg, Bernard A. Goldman, Seymour L. Silverstein, Timothy A. Hays, Richard L. Spears, Frank A. Crowley, Myles Hannan, Anthony DiNardo and Harold Frank.

In our last Annual Report, we told you that Irving W. Rabb, our Vice Chairman, had been named Interim Chairman of the Joint Advisory Board charged with developing the means for merging Super Market Institute and the National Association of Food Chains, Inc.

We are pleased to report the merger has been successfully accomplished and that Mister Irving was elected to serve as the first Chairman of the new organization, the Food Marketing Institute.

In 1975, the Super Market Institute established the Sidney R. Rabb Award, in honor of our Chairman, to be presented annually to that member of the food industry "who has made an outstanding contribution to the industry, requiring efforts above and beyond those usually involved in the pursuit of individual and corporate objectives."

First winner of the award, presented at the 1976 SMI convention, was our Mister Sidney, who was cited for "his selfless devotion . . . to the welfare of this business . . . and to the community at large."

STOP & SHOP SUPERMARKETS

The Stop & Shop Supermarket Company passed the billion dollar sales mark in the final week of the fiscal year, in spite of the severe and unrelenting price competition which persisted throughout much of the year in our marketing area.

That competition, combined with sharply rising costs, a leveling off of inflation in food prices generally and more selective buying by consumers, had the effect of substantially reducing our contribution to profit from the 1975 levels.

With our long-term strategy in place, we have begun 1977 with renewed enthusiasm—and greater pride than ever in the ability of our people to perform during a very

difficult time for food retailers in areas of high competition.

Our enthusiasm was buoyed by encouraging sales during the holiday season and our ability to meet the challenges of the harshest winter in the history of the Northeastern United States.

During January and February our distribution system functioned with the professional efficiency we have come to expect of it and we can report that during this period none of our supermarkets reported any major reductions in stock levels.

New stores opened in Parsippany-Troy, New Jersey and in East Hartford, Connecticut, the latter a replacement store. We closed the Cheshire, Connecticut supermarket.

We completed major remodels of stores in Boston (Government Center), Waltham, Cambridge, Chestnut Hill, Cohasset and Lynn, Massachusetts; East Haven and Hamden, Connecticut and Poughkeepsie, New York, and renovations of 39 other supermarkets.

The severe price competition in Massachusetts prompted us to experiment with a "warehouse" food store concept. During 1976 we converted three of our Massachusetts supermarkets, in New Bedford, Chelmsford and Lowell, into such stores under the name "Economy Food Outlet." Since the end of the year we have similarly converted our store in Manchester, New Hampshire. We are closely watching the results of this experiment which to date suggests the approach is viable in certain local situations.

The Supermarket Company also introduced in its Massachusetts and Connecticut stores "Mini-Warehouse" sections, featuring unadvertised specials on "deal" merchandise.

As we reported earlier, in March, 1976 we opened a new 107,000 square foot Perishable Distribution Center in our Readville, Massachusetts complex. Two features of this new facility came on-stream during the year with excellent results: 6 banana ripening rooms, capable of ripening under gas 4800 boxes of bananas a week, and a floral cutting room which has given a new dimension to the burgeoning florist business we do in our stores.

In July of 1976, we relocated our New York/New Jersey Divisional Offices to Paramus, New Jersey. These new quarters are more suited for our expanded activities in that market.

In January of this year, Carol R. Goldberg, formerly Vice President and General Manager of the Boston Supermarket Division, was appointed President of the new Stop & Shop Manufacturing Company.

Edmund J. Rozumek, General Sales Manager for the BSD, was named to succeed Mrs. Goldberg, as Vice President and General Manager of the Division.

Richard J. Ponte, General Sales Manager of the Connecticut Division was appointed to General Sales Manager, Boston Division.

Robert Tobin, Grocery Sales Manager, Connecticut Division, became General Sales Manager, Connecticut Division.

Robert A. Morrissey was promoted from Assistant Controller to Controller of the Supermarket Company.

John E. Grant, Produce Marketing Manager, was promoted to Perishable Sales Manager.

These moves reflect our ability to develop people and to fill key management positions from within, which has long been a strength of Stop & Shop.

In challenging times, people are more than ever the most important element. Our people met the additional challenges of 1976—the ever-increasing competitive pressures, the winter energy crisis, the Florida citrus freeze and the snowstorms of January with hard work, enthusiasm and dedication.

GENERAL MERCHANDISE

Sales and profitability figures for the General Merchandise Companies, published in this report, show a gratifying rate of growth under the leadership of Group Vice-President Robert J. Levin.

The results reflect a conscious commitment to the concept of operating a group of companies having many things in common yet with separate merchandising identities designed to fulfill the varying needs of the consumer.

In applying this concept, Bradlees, Medi Mart, and C. B. Perkins take advantage of combined buying and warehousing efficiencies and share new techniques of inventory control, loss prevention and merchandising.

The results for each of the three General Merchandise Companies are reported in the following pages:

BRADLEES DEPARTMENT STORES

For the second straight year, Bradlees posted record sales and operating profit contribution.

This achievement was the result of a number of key factors:

– *The expertise of* our buying and merchandising staffs
– *The wide appeal of* our advertising programs
– *The skills of* our services and support staffs
– *The convenience of* our stores
– *The quality of* our people

Our merchants demonstrated during the year an ability to adjust to changing consumer buying habits.

Towards mid-year, for example, the retail industry generally experienced a softness in sales of men's and women's sports apparel. Our merchants spotted the trend early, took the necessary markdowns promptly and came out of the slump in sound inventory position.

Inventories were kept lean right through a great holiday selling season, and that leanness was a definite factor in our good performance, in spite of the bitter weather in January.

We maintained our strategy of consistent advertising, featuring weekly chain-wide brochures, supported by radio and television. Our advertising spokesperson, "Mrs. B," has been effectively conveying our theme, "At Bradlees you buy what Mrs. B buys and nobody can buy like Mrs. B."

Inventory "shrink"—from pilferage, damage, theft—has always been a problem for our industry. We have made significant gains in loss prevention through a company-wide "Shrink Committee" which develops and implements improvements on an ongoing priority basis.

During the year we installed electronic cash registers in 11 more Bradlees, bringing the total to 16 stores. This reflects our continuing strong commitment to developing more meaningful merchandise information. The increasing emphasis on Information Systems throughout The Stop & Shop Companies is particularly important to Bradlees' future. Detailed and timely information on product movement by store will be essential to satisfy the consumers of the 1970's and 1980's. We have been greatly assisted in this important area by the establishment of an Information Service group, tied closely to our Corporate Systems Division, but working strictly for Bradlees.

We opened six new stores in the year, in Parsippany-Troy and Clark, New Jersey; Binghamton, New York; Bridgeport and East Hartford, Connecticut; and Keene, New Hampshire. Binghamton was the first Bradlees located as an integral part of a major regional shopping mall.

Keene and Clark were former W. T. Grant's locations, and we are especially pleased to report that Clark set an all-time record for opening sales. Both stores quickly established themselves as successful.

We completed major remodels of five stores; in Boston's Fields Corner section, Dedham, Leominster and Pittsfield, Massachusetts and Bristol, Connecticut. Bristol, Pittsfield and Leominster had their "Grand Reopenings" on the same day in August, and we were pleased our organization was able to plan and carry out the reopenings in so smooth and professional a manner.

We began a number of new ventures during the year: reopening under Bradlees management the family restaurants in the two Grant's locations, with the help of their experienced staffs; licensing our first optical department, in a Bradlees at Norwalk, Connecticut; and testing home decor centers in three stores.

During the year we restructured our merchandising function with the appointment of Robert Braunstein as Divisional Merchandise Manager, Cosmetics and Frank Kruse, Divisional Merchandise Manager, Housewares and Home Furnishings.

In December, James Hyman assumed responsibility, as General Merchandise Manager, Hardlines, for essentially all merchandise except apparel and accessories.

All of this activity has brought us continuing increased productivity. We are gratified to report that in the year the sales per square foot for comparable stores was the best increase in the recent history of Bradlees, and in the years ahead, we will strive to make it even more significant.

MEDI MART DRUG STORES

Medi Mart continued its vigorous growth during fiscal 1976 while successfully meeting the challenges of increasingly active competition within our three market areas. Sales records were set throughout the year, and the company reached a new high in the number of prescriptions filled.

Competition was heightened by the United States Supreme Court ruling which legalized prescription drug price advertising. This decision was consistent with Medi Mart's basic philosophy; and we responded with an aggressive and expanded newspaper advertising program. It highlighted professionalism, pricing and consumer information, and was aimed toward more clearly defining the concept and image of a "super drugstore." We were extremely pleased that one of those ads won Honorable Mention as "Newspaper Ad of the Year" in a contest sponsored by the National Retail Merchants Association. We followed up the newspaper activity with an intensive radio advertising campaign, also emphasizing the complete services offered at Medi Mart.

Adhering to its on-going long range strategy, Medi Mart expanded to 35 stores with the opening of new units in Somerville, Saugus, and Plymouth, Massachusetts, and East Hartford, Connecticut. To give added strength to existing stores, pharmacy remodels were undertaken in Hillsdale, New Jersey, and Medford, Massachusetts. Our Medi Mart in Willimantic, Connecticut, one of our original stores, was also remodeled in the pharmacy and our newest merchandising concepts were incorporated into the body of the store, giving it a revitalized appearance and added shopping appeal for our customers.

As Medi Mart continued to mature during the course of the year, we took a more active part in corporate programs, including expanded participation in corporate warehousing and distribution, and combined buying activity. In the area of consumer affairs, the company developed a presentation for the Corporate Consumer Board "demystifying" prescription drug purchasing. Working with our own "We Care" Committees, comprised of associates within each store, and drawing upon the suggestions and insight of the people who know the stores, we developed a program for reducing our losses due to pilferage. As a result of the effort and commitment our people made to this program, significant progress was made in reducing this threat to the Company's health.

People continue to be the most important ingredient in the Medi Mart formula, and in recognition of our people oriented programs in public affairs, employee relations and customer relations, the National Association of Chain Drug Stores presented us with four Gold Link Awards. These programs include the very successful free hypertension clinics in which approximately 10,000 of our customers were screened in 1976, a continuing service periodically made available in selected stores within each of our operating areas.

In recognition of the importance of the pharmacy area, Donald H. Benovitz, a registered pharmacist and our former market manager in New Jersey, was named Director of Professional Relations. Russell Lawton, former store manager of our Wyckoff store, was promoted to market manager, New Jersey, and Michael O'Grady, former cosmetic merchandiser, was named market manager for Massachusetts.

PERKINS TOBACCO SHOPS

Perkins Tobacco Shops came through a severe period of testing in the early months of 1976, months marked by consumer buying restraint, but we are pleased to report a strong comeback in the key holiday selling season, and a year of record sales and increased profitability.

In the year we opened four new Perkins departments in Bradlees stores in Dorchester, Massachusetts, Clark and Clifton, New Jersey, and Bridgeport, Connecticut, and a major new mall store in West Farms Mall, in West Hartford, Connecticut.

We demonstrated our commitment to the continued viability of downtown Boston retailing by completely remodeling our Washington Street Store, putting into the store all of our most up-to-date merchandising concepts. Sales growth from this updating has been encouraging.

In our Bradlees stores, continuing emphasis on our competitive pricing structure, and a merchandising presentation oriented towards increasing self-service, produced substantial gains in sales and customer acceptance.

Improvements in sundry sales presentation and extension of our custom blended Tobacco Bars to most mall stores highlighted developments there.

New and stronger emphasis was given during the year to Perkins employee training, with seminars on product orientation and personal selling for store managers in all market areas.

THE STOP & SHOP MANUFACTURING COMPANY

In January of 1977 the Stop & Shop Manufacturing Company was formed, with Carol R. Goldberg as President. The Company's commission is to expand production and processing of items to be sold in our own stores and to increase production and sales of products to other retail companies, restaurants, fast food chains, hotels wholesalers, etc. The Company includes what were formerly the Manufacturing Division and the Marlboro Meat Processing Division.

In anticipation of that development our manufacturing and technical group had already taken a number of steps during 1976 to upgrade and improve our production and processing facilities.

Before going on to enumerate and describe those activities, we are pleased to report that in 1976 the Manufacturing Division achieved a record performance.

One factor in that success was the relative stability over most of the year of the price of raw commodities, in marked contrast to the turbulence of recent years—with the striking and well publicized exception of coffee.

At the Bakery, we completed installation of a new automated English muffin line on the sixth floor. We began production on September 1, at a rate triple what it had been previously and at a reduction in cost. Our engineers overcame a number of problems in setting up the line, not least of which was the necessity of "marrying" equipment produced by seven different manufacturers.

Our Bakery is situated in the North Washington Street area of Boston, almost next door to Boston Garden, the home of the Boston Bruins and Celtics. The area was subject to almost instant renewal last year with the razing of the old elevated railway from Boston to Charlestown.

Stop & Shop has always emphasized the importance of "grass roots" efforts to maintain and improve local communities. We participated in the general upgrading of the area by using chemicals and high pressure application to remove the dirt and grime accumulated on the outside brick walls of our Bakery over three-quarters of a century.

The result has been extremely pleasing for all of us, and we have been officially commended by the City of Boston for our part in the renewal of "our neighborhood."

We also completed a project to make the Bakery completely Kosher, so that every item produced there may now carry the Kosher symbol.

And although admittedly operating from a small base, we effected a substantial increase in our outside sales of Bakery products and are actively seeking new markets.

At the Dairy, our technical group completed installation of the bulk orange juice concentrate handling system, which we mentioned in our last report. We are pleased to report our production rate has increased by a factor of four as a result.

We began producing milk in plastic gallon jugs during the year, and by year's end, 40 percent of the milk sold in our stores was in plastic gallon jugs filled at the Dairy. Sales of orange juice were up markedly as a result of our new merchandising program, and the Dairy is now making plans to introduce a third shift.

At the Stop & Shop kitchen we shifted our ordering system over to the computer, making for a more efficient operation, and successfully introduced a domestic baked ham as well as a private label imitation mayonaise.

1976 was a highly successful year for the potato chip operation, and early in 1977 we improved our operation even further with installation of new packaging equipment. This new equipment doubles the speed of the packaging operation while at the same time allowing for more precise filling of individual packages.

At the Photo Lab we completed installation of a new high speed printer and paper processor, equipment which made it possible to handle easily the tremendous volume of work resulting from the visit of the "Tall Ships" to the Northeast and the celebration of the Nation's Bicentennial.

Our people accomplished conversion of one production line at the Marlboro Meat Processing Facility to a capability of producing either beef in baskets for sale through our own stores, or boxed beef for outside sales.

In October, Blaine B. Breidenstein was appointed to the new position of Divisional Vice President, Marlboro Meat Processing Facility, in recognition of his accomplishments at the plant and the importance of Marlboro as a symbol of our commitment to quality.

During the year our technical group continued working on the refinement of the temperature and humidity controls at the new Perishables Distribution Center at Readville, and the further development of the banana ripening program and the flower packaging operation.

Our Greatest Asset: Our Greatest Challenge

Our "Blue Waters" group takes a few moments from a lunch-hour meeting to assemble for a group portrait.

The future of The Stop & Shop Companies, lies in the talented people we are developing today.

We have been in retailing long enough to know there is no substitute for experience in the development and growth of people.

We also know experience can be shared and, through sharing, development can be hastened and growth quickened to meet the need for quality in every phase of our business.

Or, as our Chairman, Sidney R. Rabb, said almost a quarter century ago, in a 1953 address entitled "The Wonderful Power of People," one guiding policy of the Company is "to develop employees in accordance with their natural capacities and to build a committed efficient team."

In pursuit of that goal-the development and growth of quality people-we operate at Stop & Shop, if not a "university," at least a very good small "college" where:

• Sixty key executives from all segments of our company meet for intensive discussions of such widely disparate topics as corporate buying and distribution, cash management and the future of our company and our community.

• Groups of supervisors from our Manufacturing Division plants have participated, since 1973, in seminars on Human Relations to help them become better managers.

• Men and women from middle management in our operating companies visit Bunker Hill Community College in the Charlestown section of Boston to share with students their views of the challenges and rewards of retailing.

• Clerical workers in our general offices delay their departure for home by two hours, three days a week, to take advantage of free courses in shorthand and typing skills needed for advancement.

Donald Benovitz, Reserve Store Manager; Store Manager; District Manager; Market Manager; Director of Professional Relations, Medi Mart.

Dr. Blaine B. Breidenstein, Marlborough Development; Director of Technical Services; Director of Operations; Divisional Vice President, Marlborough Meat Processing Facility.

• A supervisor from our Photo Lab may attend classes at the PAKO or Kodak school of photography; a manager from the Bakery may study at the American Institute of Baking in Chicago.

• Management people from all line, staff and support service areas of the Company attend "self-awareness sessions" throughout the year.

• Stop & Shoppers from each of our Companies, to the number of 177 in 1976, study after working hours at colleges and universities of their choice, and the Company reimburses them for half the cost of tuition.

These activities reflect our commitment to quality in people, just as we are committed to selling only quality food, drugs and general merchandise in excellent stores. We have accomplished the latter by strict quality control. "Quality growth," is no less important in the development of people.

The November meeting of the 60 key executives, our so-called "Blue Waters group," was one aspect of that growth.

We call the group "Blue Waters" because it first met in March of 1973 in the Blue Waters Motel on Cape Cod for three days of discussion on the goals of the Company and the goals of the people within the Company. Since then, Blue Waters has come to represent our Corporate commitment to quality in people development.

Ken Topalian, Assistant Buyer, Ladies Sportswear; Boys Buyer; Merchandise Manager, Boys Division, Divisional Merchandise Manager, Domestics, Bradlees.

November's meeting exposed the Blue Waters group to some of the leading social thinkers of our time: Irwin Miller, Past President of The Opinion Research Corporation; Michael Novak, author of "Beyond the Melting Pot" and "The Rise of the Unmeltable Ethnics"; Theodore Levitt, Harvard Business School Professor of Marketing; and, Leo Cherne, Director of The Research Institute of America.

As one member of Blue Waters said afterwards: "They gave us new perspectives and insights . . . they sketched the future for us, something we may lose sight of in the pressures of day-to-day business. The meeting made it possible for us to learn much about where our company is today, where it is going, the influences—from the consumer, from government, from the market place—bearing on it."

Blue Waters has helped us see the Company as a whole and the role of each division within the Company. Out of the November meeting came detailed recommendations of the management group concerning how the Company should respond to the new challenges we face.

It has re-inforced our commitment to the preparation of our people in our own "University without walls" to meet the many challenges facing us in the future.

The results of our efforts in developing our people are beginning to show. In this report alone, we make mention of a number of activities which require people changes.

Medi Mart opens four new drug stores—and each of the managers of the new stores comes from within Medi Mart.

Bradlees restructures its merchandising functions, and of the 13 appointments made, all but one comes from within Bradlees.

Carol R. Goldberg is appointed President of the new Stop & Shop Manufacturing Company, and that means three significant Supermarket Company appointments:

Edmund J. Rozumek, Store Manager Trainee; Store Manager; Zone Manager; Bakery Sales Manager; Sales Manager, Manufactured Products; Sales Manager, Boston Supermarket Division; Vice President and General Manager, Boston Supermarket Division.

of Edmund J. Rozumek as divisional Vice President/General Manager (Boston) and two divisional Sales Managers: Richard Ponte (Boston) and Robert Tobin (Connecticut).

All are appointments made from within Stop & Shop, as are the new Vice President for the Marlboro Meat Processing Facility, Blaine B. Breidenstein; the new Director of Research, Roger Schumacher; the new Director of Facility and Energy Management Division, David N. Freedman.

Roger Schumacher, Market Analyst; Manager, New York/New Jersey Real Estate; Director of Research, Corporate.

Our goal continues to be to shape a system which will identify high potential people throughout The Stop & Shop Companies, relating divisional information to a corporate plan and cutting across company lines where such action is indicated, to produce the quality managers needed by the Company.

When Sidney Rabb gave that speech in 1953, there were 2,500 men and women associated in Stop & Shop; today, there are more than 25,000 but the commitment continues, and has been strengthened.

In his remarks to the Annual Meeting of 1973, our President, Avram J. Goldberg, said of the first Blue Waters meeting:

"The ideas which came out of those sessions will be put into effect in the coming year; but even more important was the feeling of dynamic commitment to unity and growth which evolved naturally from working together. We have barely scratched the surface of the potential of our own people. And that is the greatest challenge the leadership of any company has. I hope that we are worthy of that challenge."

That potential remains the greatest asset of our company.

Consumer Affairs: The Big Wrap-Up

For 10 years now, our customers have been telling us through our Consumer Boards how they view our responsibilities to them—and to consumers in general.

The development of the Consumer Board program has been a slow, careful process—reflecting the impact of small meetings of very concerned consumers discussing very important topics: nutrition, additives, packaging, toy safety, prescription drugs.

All of us were delighted, therefore, when the Consumer Board program, with no direct help from us, went "on T.V." for the first time early this year.

The vehicle was the kickoff program of the "Woman '77" series on NBC's Boston affiliate WBZ-TV: "Packaging: The Big Wrap-Up." With Consumer Reporter Sharon King chairing, it followed a February 1976 meeting of our Corporate Consumer Board, at which a panel of experts drawn from the packaging industry discussed with our members the many phases of packaging. The Board explored what a package was and what it should do. The members commented on packages which were ecologically wasteful or hard-to-handle, and made recommendations on developing convenient, resealable and reusable packaging. Subsequently we mailed a resume of the meeting to all consumer editors and writers, Ms. King among them. After reviewing the issues which were aired, Ms. King decided to invite four of our members to join her "live" on Channel 4.

In ten years with the Consumer Board program, we have learned that consumers have strong opinions. So, it was no surprise to us when our Massachusetts Associate Members, Mrs. Mary Michalowski and Mrs. Mary Rahilly of Dedham, Mrs. Shirley Taradash of Somerset and Mrs. Karen Rotondi of Wakefield, arrived at the network's station equipped with products to illustrate their packaging likes and dislikes.

One of four products in the "like the most" category was the "blister pack" of Stop & Shop brand deodorant. Coincidentally, the pack was introduced into our supermarkets on the same day the show aired, as a direct result of the February meeting on product packaging. Most complaints centered on the excessive and wasteful packaging of many national and private label brands. Our new "blister pack" is easy-to-handle, convenient to store, attractively designed and not over-packaged. In fact, besides information needed to make a wise buying decision such as directions and ingredients, the pack includes a "Consumer Notice" stating: "over-packaging that is 'usual' for this item has been avoided. YOU GET WHAT YOU SEE!"

Products in the "like the least" category included: hard-to-open condensed milk, nonresealable cookie and potato chip bags or boxes and bulky, hard-to-handle bags of sugar.

Our members are telling us what a good package should be. Our new "blister pack" deodorant is just one example that we listen—and we will continue to work on the suggestions they have made.

During the past year, our Consumer Board program has grown from 52 to 56 boards in Massachusetts, New Hampshire, Rhode Island, New Jersey, New York and Connecticut. In that time local boards had 176 meetings with store managers from Stop & Shop, Bradlees and Medi Mart to discuss such headline topics as food additives and nutrition, in addition to issues of local concern, including product availability and service quality.

One of the most important areas in our consumerism work involves monitoring consumer trends that affect us, and communicating our evaluation of these trends to store managers and customers. Such issues this year included the controversial Massachusetts Bottle Bill, where we advocated a resource recovery approach rather than mandatory deposits.

Our consumer information and education program produced 48 issues of "Consumerisms," our own pamphlet, dealing with such issues as the Universal Product Code (UPC) and product labeling and alerting customers to sensible shopping alternatives to save money while shopping.

With a year of relatively mild inflation, and passions somewhat cooled, we feel we were able to make important strides in the ongoing process of mutual education and information flow to and from the world of consumers.

Woman '77 and Packaging—Principals in a discussion of product packaging on Boston's "Woman '77," the popular daytime program of Boston's Channel 4 (WBZ-TV), included, from left, Stop & Shop Consumer Specialist Karen Mroz; Mary Rahilly and Mary Michalowski of Dedham; Channel 4's Consumer Reporter Sharon King; Karen Rotundi of Wakefield and Shirley Taradash of Somerset. Mmes. Rahilly, Michalowski, Rotundi and Taradash are all Associate Members of The Stop & Shop Companies Consumer Board.

The Stop & Shop Companies, Inc. and Subsidiaries Five-Year Summary of Sales and Operating Profit Contribution by Major Categories

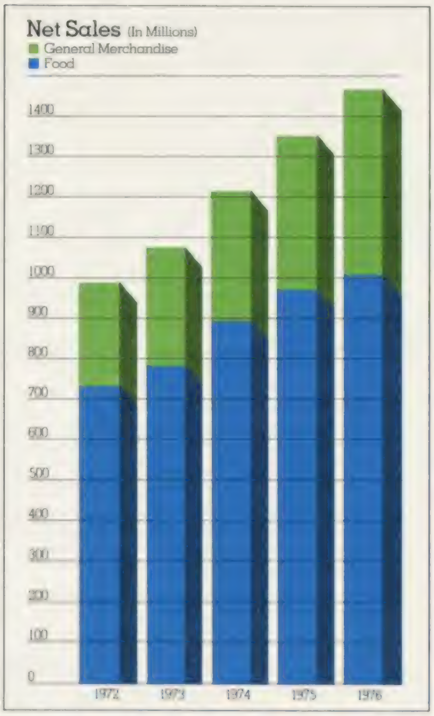
Fiscal Year Ended	1/29/77		1/31/76		2/1/75		2/2/74		2/3/73[a]	
($ In Thousands)										
Sales	**$**	**%**	**$**	**%**	**$**	**%**	**$**	**%**	**$**	**%**
Food	1,013,135	68.7	978,566	72.0	894,099	73.1	788,764	72.8	733,797	73.8
General merchandise	461,737	31.3	381,210	28.0	329,692	26.9	294,193	27.2	260,672	26.2
Total sales	1,474,872	100.0	1,359,776	100.0	1,223,791	100.0	1,082,957	100.0	994,469	100.0
Operating Profit Contribution										
Food	10,582	37.7	19,485	56.0	20,937	83.9	13,635	61.1	10,491	58.6
General merchandise	17,507	62.3	15,323	44.0	4,020	16.1	8,694	38.9	7,406	41.4
Total operating profit contribution	28,089	100.0	34,808	100.0	24,957	100.0	22,329	100.0	17,897	100.0
Unallocated Expenses—Net										
Interest expense—Other than mortgages	3,547		2,307		2,620		3,040		3,407	
State taxes	1,636		2,607		1,383		1,339		1,152	
Other	4,620		4,373		3,636		2,723		2,533	
Total unallocated	9,803		9,287		7,639		7,102		7,092	
Operating earnings before federal income taxes	18,286		25,521		17,318		15,227		10,805	
Federal income taxes	6,878		11,008		7,212		6,367		4,405	
Operating earnings	11,408		14,513		10,106		8,860		6,400	

[a]53 weeks

Summary of Quarterly Results—1976

	Net Sales	Costs & Expenses	Net Earnings	Per Share
First 16 weeks	$ 424,625	$ 422,327	$ 1,332	$ .34
Second 12 weeks	325,497	323,321	1,285	.32
Third 12 weeks	344,532	342,245	1,334	.34
Fourth 12 weeks	380,218	368,693	7,457	1.88
	$1,474,872	$1,456,586	$11,408	$2.88

Management's Analysis and Discussion of Operating Results



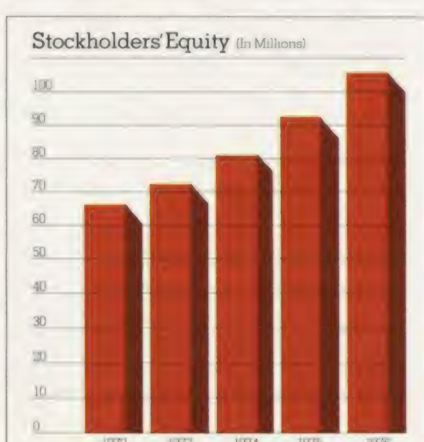
Total sales in 1976 increased by $115,096,000 or 8.5% over 1975. Food sales increased by $34,569,000 or 3.5% and General Merchandise sales increased by $80,527,000 or 21.1%. General Merchandise sales continued on an upward trend during the year and in particular, during the fourth quarter holiday season. Food sales, on the other hand, reflected the general softness in the region's Supermarket industry during the year, as well as increased competitive pricing activity. Sales increases also reflect sales generated in new stores and stores remodeled during the year. Sales from Food represented 68.7% of the total in 1976 compared to 72.0% in 1975 whereas General Merchandise sales increased to 31.3% from 28.0% in 1975.

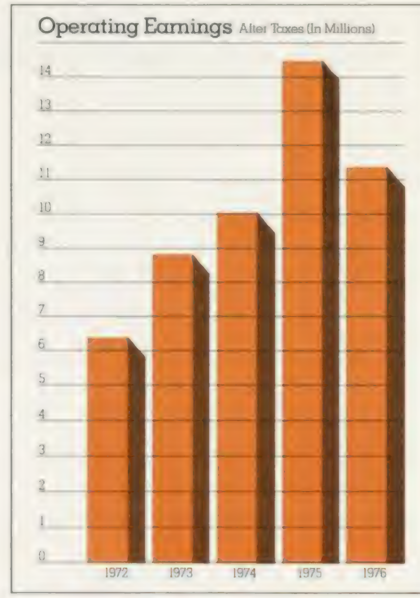
Total sales for 1975 increased by $135,985,000 or 11.1% over 1974. Food sales increased by $84,467,000 or 9.5% and General Merchandise sales increased by $51,518,000 or 15.6%. The overall sales increase over 1974 resulted principally from the improved retail climate in 1975 and sales from new and remodeled stores.

Costs and expenses for 1976 increased by $122,331,000 or 9.2% over the prior year. These increases were primarily due to a continued rise in operating expenses as well as increased advertising programs resulting from intensified competition and more selective buying patterns. In addition, total interest expense increased by $1,906,000 or 30.7%. Interest on mortgages increased by $666,000 or 17.1% resulting from additional mortgage costs on real estate financing including the financing of the new Perishable Distribution Center which was completed in 1976. Other interest expense (net) increased by $1,240,000 or 53.8% over the prior year. On June 17, 1976 the Company signed a note agreement with the Prudential Insurance Company (Note 3) to refinance its existing loan and received $11,225,000 in additional funds in 1976 for its capital expenditure program. The additional interest costs of this financing as well as reduced rates on short term investments in 1976 account for the increase in other interest expense.

Costs and expenses for 1975 increased by $127,781,000 or 10.6% over 1974 and reflect the rise in operating and other costs as noted in the comparison of 1976 and 1975. During 1975, net interest expense, other than from mortgage debt, decreased by $313,000 or 12% from 1975 due primarily to the increased short term investment of surplus cash in 1975 as well as the absence of short term borrowing requirements.

In 1976 federal income taxes were 37.6% of earnings before federal taxes compared to 43.1% in 1975.





The reduction in the effective tax rate is principally due to an increase in the investment tax credit.

Operating earnings for 1976 amounted to $11,408,000, a decrease of $3,105,000 or 21.4% from 1975. The 1976 operating profit contribution from Food was down substantially from 1975 due to increased competitive pricing activity and more selective consumer buying patterns accompanied by a continued rise in operating costs. The General Merchandise profit contribution was up but not enough to offset the profit decline in Food. Operating earnings for 1975 were $14,513,000, an increase of $4,407,000 or 43.6% over 1974, accounted for by the substantial improvement in the contribution to earnings generated by General Merchandise. Operating earnings as a percentage of sales were .77% in 1976, 1.07% in 1975 and .83% in 1974.

The operating profit contribution from Food decreased to 37.7% of the total in 1976 compared to 56.0% in 1975 and 83.9% in 1974. General Merchandise percentage profit contribution increased to 62.3% in 1976, from 44.0% in 1975 and 16.1% in 1974.

In 1974 the Company realized extraordinary income of $1,886,000 from settlement of fire insurance claims.

Consolidated Ten-Year Financial Summary

Fiscal Year Ended (In Thousands)	1/29/77	1/31/76	2/1/75
Operating Results			
Sales:			
Food	$1,013,135	978,566	894,099
General merchandise	$ 461,737	381,210	329,692
Total	$1,474,872	1,359,776	1,223,791
% Increase over prior year	8.5%	11.1%	13.0%
Cost of goods sold	$1,144,870	1,060,672	963,060
Selling and administrative expenses	$ 286,752	251,811	221,767
Depreciation & amortization	$ 16,855	15,569	15,004
Interest expense mortgages	$ 4,562	3,896	4,023
Interest expense other (net)	$ 3,547	2,307	2,620
Pre-tax operating earnings	$ 18,286	25,521	17,317
Operating earnings	$ 11,408	14,513	10,106
Percent to sales	.77%	1.07%	.83%
Percent to common stockholders' equity	11.3%	15.6%	12.4%
Extraordinary income	$ —	—	1,886
Earnings per share of common stock:[b]			
Before extraordinary income	$ 2.88	3.68	2.56
After extraordinary income	$ 2.88	3.68	3.04
Reinvested in the business	$ 7,447	11,201	8,918
Dividends[b]			
Dividends paid	$ 3,961	3,312	3,074
Dividends paid per share of common stock	$ 1.00	.84	.78
Common Stock Distribution (5 for 4 split)	—	25%	—
Financial Position			
Capital expenditures (net)	$ 25,023	22,965	14,400
Inventories	$ 139,554	129,720	107,507
Working capital	$ 65,054	55,482	48,221
Current ratio	1.69	1.57	1.65
Total assets	$ 314,122	298,601	261,990
Long-term debt less current portion:			
For land and buildings	$ 60,368	63,191	57,637
For other	$ 46,770	33,954	36,428
Stockholders[b]			
Stockholders' equity	$ 100,633	92,935	81,706
Per share of common stock	$ 25.37	23.56	20.73
Number of common shares outstanding	3,966	3,944	3,942
Common stock price range—high-low	$ 21-13¼	18⅜-10¼	14⅝-7¼
Stores			
Stores in operation at year end:			
Stop & Shop supermarkets	157	157	156
Bradlees department stores	75	69	65
Medi Mart drug stores	35	31	25
Perkins tobacco shops	48	44	39
Square footage—sales area at year end: (In Thousands)			
Stop & Shop supermarkets	2,888	2,870	2,762
Bradlees department stores	5,243	4,805	4,419
Medi Mart drug stores	378	339	279
Perkins tobacco shops	30	27	23
Total	8,539	8,041	7,483

[a] 53 weeks.
[b] Per share amounts have been restated to reflect a 5 for 4 stock split-up paid April 1, 1976.

2/2/74	2/3/73[a]	1/29/72	1/30/71	1/31/70	2/1/69[a]	1/27/68
788,764	733,797	683,020	603,662	553,046	515,575	459,726
294,193	260,672	224,714	186,288	167,432	139,247	106,635
1,082,957	994,469	907,734	789,950	720,478	654,822	566,361
8.9%	9.6%	14.9%	9.6%	10.0%	15.6%	11.6%
862,991	794,985	730,060	624,974	570,819	522,182	453,161
183,574	169,860	157,109	139,744	122,610	109,662	93,763
14,014	11,616	9,843	9,419	8,931	7,928	6,839
4,101	3,798	3,034	2,361	2,373	2,084	1,868
3,040	3,407	3,188	3,400	1,622	1,155	1,085
15,237	10,803	4,500	10,052	14,123	11,811	9,645
8,860	6,400	3,561	5,637	7,445	6,736	6,113
.82%	.64%	.39%	.71%	1.03%	1.03%	1.08%
12.2%	9.6%	5.6%	9.1%	12.6%	12.7%	12.6%
—	—	—	—	—	—	1,773
2.25	1.62	.90	1.44	1.92	1.78	1.62
2.25	1.62	.90	1.44	1.92	1.78	2.09
6,023	3,562	729	2,819	4,691	4,001	5,391
2,837	2,838	2,832	2,818	2,754	2,735	2,495
.72	.72	.72	.72	.72	.72	.66
—	—	—	—	—	—	—
14,672	13,735	38,561	16,824	19,093	18,251	13,018
98,584	83,518	72,753	60,613	58,624	51,469	42,583
38,586	36,798	36,495	50,059	32,969	32,476	24,716
1.48	1.55	1.59	2.20	1.61	1.92	1.88
260,087	244,729	238,337	200,638	188,305	158,432	133,028
59,776	62,221	62,069	45,951	39,297	38,926	32,646
38,895	41,125	43,575	44,800	26,100	26,100	20,000
72,774	66,751	63,153	62,150	59,251	53,040	48,659
18.47	16.94	16.03	15.87	15.15	13.92	12.87
3,941	3,941	3,939	3,917	3,911	3,810	3,781
15¼-10⅜	21¼-11⅜	22¾-15¾	24½-15¾	27¾-19⅛	29¾-19⅜	21¾-12⅞
155	154	156	149	139	138	134
63	56	53	51	50	52	46
22	19	18	13	6	3	—
38	34	33	28	21	—	—
2,728	2,674	2,655	2,460	2,212	2,134	1,978
4,176	3,575	3,322	3,040	2,968	2,949	2,508
261	236	227	162	76	36	—
22	20	18	14	9	—	—
7,187	6,505	6,222	5,676	5,265	5,119	4,486

The Stop & Shop Companies, Inc. and Subsidiaries
Consolidated Balance Sheets

Assets	**January 29, 1977** (In Thousands)	**January 31, 1976** (In Thousands)
Current assets:		
Cash	$ 4,906	$ 5,277
Marketable securities (at cost, approximating market)	5,544	8,458
Accounts receivable	7,880	7,954
Inventories, at the lower of cost or market	139,554	129,720
Prepaid expenses	2,003	1,239
Total current assets	159,887	152,648
Fixed assets, at cost (Notes 1 and 3):		
Land	11,070	10,173
Buildings and improvements	105,446	103,648
Fixtures, machinery and equipment	99,692	89,586
	216,208	203,407
Less accumulated depreciation and amortization	81,330	74,036
	134,878	129,371
Leasehold improvements at cost less accumulated amortization	15,911	13,181
Net fixed assets	150,789	142,552
Other assets:		
Notes receivable, and other	2,012	2,017
Deferred charges	1,434	1,384
Total other assets	3,446	3,401
	$314,122	$298,601

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	January 29, 1977 (In Thousands)	January 31, 1976 (In Thousands)
Current liabilities:		
Current portion of long-term debt	$ 1,720	$ 4,767
Accounts payable	69,283	71,511
Accrued expenses	20,830	18,372
Federal income taxes	3,000	2,516
Total current liabilities	94,833	97,166
Deferred credits:		
Federal income taxes (Note 5)	10,707	10,511
Other	811	844
Total deferred credits	11,518	11,355
Long-term debt (Notes 1 and 3):		
Capitalized lease obligation	8,685	8,900
Mortgage notes payable	51,683	54,291
Other notes payable	46,770	33,954
Total long-term debt	107,138	97,145
Stockholders' equity:		
Preferred stock; authorized 500,000 shares, none issued or outstanding	–	–
Common stock par value, $1 per share; authorized 7,500,000 shares, issued 4,041,316 shares and 4,019,622 shares, respectively (Note 2)	4,041	4,020
Capital in excess of par value of capital stock (Note 4)	15,323	15,093
Retained earnings (Note 3)	82,576	75,129
	101,940	94,242
Less cost of 75,373 shares in treasury	1,307	1,307
Total stockholders' equity	100,633	92,935
	$314,122	$298,601

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings and Retained Earnings

	52 Weeks Ended January 29, 1977 (In Thousands)	52 Weeks Ended January 31, 1976 (In Thousands)
Retail sales	$1,474,872	$1,359,776
Costs and expenses:		
Cost of goods sold, buying and warehousing costs	1,144,870	1,060,672
Selling, store operating and administrative expenses	286,752	251,811
Depreciation and amortization (Note 1)	16,855	15,569
Interest on mortgages	4,562	3,896
Other interest (net)	3,547	2,307
	1,456,586	1,334,255
Earnings before federal income taxes	18,286	25,521
Federal income taxes (Note 5)	6,878	11,008
Net earnings	11,408	14,513
Retained earnings at beginning of year	75,129	63,928
	86,537	78,441
Less cash dividends paid, $1.00 and $.84 respectively	3,961	3,312
Retained earnings at end of year	$ 82,576	$ 75,129
Net earnings per average common share outstanding	$ 2.88	$ 3.68[a]

[a] Adjusted to reflect a 5 for 4 stock split-up paid April 1, 1976.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	52 Weeks Ended January 29, 1977 (In Thousands)	52 Weeks Ended January 31, 1976 (In Thousands)
Funds provided:		
Net earnings	$11,408	$14,513
Items which do not use (provide) working capital:		
Depreciation and amortization	16,855	15,569
Deferred federal income taxes	196	(238)
Interest capitalized during construction of major facilities	(69)	(184)
Funds provided from operations	28,390	29,660
Increase in long-term debt	13,671	9,100
Exercise of employee stock options	251	28
Other	—	770
	$42,312	$39,558
Used as follows:		
Expenditures for fixed assets, net of book value of disposals	$25,023	$22,965
Cash dividends paid	3,961	3,312
Decrease in long-term debt	3,678	6,020
Other deferred credits	33	—
Other	45	—
Increase in working capital	9,572	7,261
	$42,312	$39,558
Changes in working capital:		
Increase (decrease) in current assets:		
Cash	$ (371)	$ 170
Marketable securities	(2,914)	5,473
Accounts receivable	(74)	1,672
Inventories	9,834	22,213
Prepaid expenses	764	273
	7,239	29,801
Increase (decrease) in current liabilities:		
Current portion of long-term debt	(3,047)	188
Accounts payable	(2,228)	21,367
Accrued expenses	2,458	4,618
Federal income taxes	484	(3,633)
	(2,333)	22,540
Increase in working capital	$ 9,572	$ 7,261

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Accounting Policies:

Principles of consolidation:

The consolidated financial statements include the accounts for the parent company and all subsidiaries.

Fiscal year:

The fiscal year of the Company and its subsidiaries ends on the Saturday nearest to January 31. The years ended January 29, 1977 and January 31, 1976 each comprised 52 weeks.

Inventories:

Inventories are valued at the lower of cost or market, using the retail method for inventories in retail stores and standard costs, approximating current costs, for inventories in warehouses.

Fixed assets and depreciation:

The Company capitalizes interest during construction of major real estate. This policy has no significant effects on the consolidated financial statements.

Depreciation of fixed assets is computed on the straight-line method at rates which are sufficient to amortize the costs over their estimated useful lives:

Buildings	20 to 40 years
Equipment and fixtures	3 to 15 years
Motor vehicles	4 years

Cost of leasehold improvements is amortized on the straight-line method over periods of 10 to 15 years, or the term of the lease, if shorter.

Federal income taxes:

For federal income tax purposes, accelerated methods of computing depreciation on buildings and equipment are used wherever applicable. Provision has been made for related deferred federal income taxes for this and other timing differences. Investment tax credits on assets placed in service during the year are accounted for as a reduction in the provision for income taxes.

Store opening and closing costs:

The Company follows a policy of charging off all store opening expenses as incurred. Losses resulting from store closings are provided for as soon as resonably determinable.

Capitalized lease:

The meat processing and packaging plant, built to the Company's specifications, is leased from the City of Marlborough, Massachusetts. The lease expires in 1998 and annual rentals approximate $700,000. The Company has the right to terminate the lease prior to the expiration date and purchase the facility at a price determined principally by the amount required to enable the City to redeem related outstanding bond financing.

Accordingly, the Company has recorded the land, buildings and equipment on the books as assets at cost and capitalized the related lease obligation as long-term debt.

Earnings per share:

The Company computes primary earnings per share based on the weighted average shares outstanding during the year (3,959,656 and 3,942,563 shares in 1976 and 1975, respectively). Fully diluted earnings per share in each of the years differed from the primary earnings per share by less than 3%.

2. Stock Options

Options under the Company's Qualified Plan are granted at 100% of market value at date of grant and expire in five years. Options are exercisable in four equal cumulative annual installments commencing 18 months after grant date.

Changes are summarized as follows:

	1976		1975[a]	
	Shares	Grant Price	Shares	Grant Price
Outstanding, beginning of year	161,737	8¾-18⅜	159,506	9½-18⅜
Options granted	–		15,625	8¾-16⅞
Expired or cancelled	(10,938)	9½-18⅜	(11,031)	9½-18⅜
Options exercised	(21,654)	8¾-13¼	(2,363)	11⅝-13¼
Outstanding, end of year	129,145	8¾-16⅞	161,737	8¾-18⅜
Exercisable, end of year	78,210	8¾-13¼	65,347	11¼-18⅜
Available for future grants	36,359		25,421	

[a] Adjusted to reflect a 5 for 4 stock split-up paid April 1, 1976.

3. Long-Term Debt

	1976	1975
	(In Thousands)	
Industrial Revenue Bonds, 5.15% to 5.75%, maturing annually in increasing amounts from $225,000 to $685,000 from 1978 to 1998.	$ 8,685	$ 8,900
Mortgage notes, 4½% to 10½%, (weighted average of 8.4% in 1976 and 8.2% in 1975) maturing annually at amounts averaging $3,100,000 through 1982, $2,400,000 from 1983 to 1997, and thereafter at smaller varying amounts through 2000.	51,683	54,291
Promissory note 9.4% maturing $4,000,000 annually to 1993 and the balance payable in 1994.	46,225	33,775
Promissory note 8.0%, maturing at increasing amounts through 1983.	156	179
Promissory note, 120% of prime rate maturing in 1981.	389	–
	$107,138	$97,145

Long-term debt maturing in the period 1978 to 1982 is as follows:

(In Thousands)

1978—$7,549	1981—$7,629
1979—$7,301	1982—$7,070
1980—$7,200	

The mortgage notes are secured by land, buildings and improvements costing approximately $95,400,000 and by assignments of intercompany lease agreements.

A 9.4% Promissory Note payable through 1994 was issued on June 17, 1976 in the principal amount of $46,225,000 replacing the 7.6% Promissory Note due in 1989. The Loan Agreement also calls for two additional notes each in the amount of $10,000,000; one to be issued on February 2 and the other August 4, 1977. The $4,000,000 annual repayment mentioned above includes the repayment of the additional $20,000,000.

Under the terms of the 9.4% Promissory Note, through 1994 working capital must be maintained at $30,000,000 and certain restrictions with respect to payment of cash dividends or purchase or retirement of capital stock are in effect. As of January 29, 1977, approximately $17,600,000 of retained earnings was not so restricted.

4. Capital in Excess of Par Value of Capital Stock

	1976	1975
	(In Thousands)	
Balance at beginning of year	$15,093	$15,068
Add:		
Excess over par value of proceeds from sale of capital stock to employees under stock option plan	230	26
Deduct:		
Transfer to common stock for 5 for 4 stock split-up	—	1
	$15,323	$15,093

5. Federal Taxes Charged to Income

The provision for Federal Income Taxes includes deferred taxes as follows:

	1976	1975
	(In Thousands)	
Accelerated depreciation	$802	$ 590
Timing differences related to store closing costs	(606)	(614)
Other	(1)	(214)
	$195	$(238)

Investment tax credits further reduced the provision by $1,875,000 in 1976 and $1,310,000 in 1975.

The federal tax expense in 1976 and 1975 reflected effective rates of 38% and 43% respectively compared with the statutory federal income tax rate of 48%. The reasons for these differences are as follows:

	1976	1975
Tax expense at statutory rate	48%	48%
Investment tax credit	(10%)	(5%)
Effective tax rate	38%	43%

State income taxes are included in selling, store operating and administrative expenses.

6. Rental Commitments

At January 29, 1977 the Company had various non-cancellable leases in effect for store properties, office buildings and distribution centers.

The number of stores owned or leased by the Company is as follows:

	Owned	Leased	Total
Stop & Shop Supermarkets	59	98	157
Bradlees Department Stores	11	64	75
Other	14	69	83
	84	231	315

Substantially all of the non-cancellable leases are "operating leases" as defined in the guidelines of the Securities and Exchange Commission. Leases falling within the definition of "financing leases" are not significant and the total present value of such lease commitments and the impact on net income if capitalized would not be material.

The minimum rentals for real estate payable to outsiders by the Company and its subsidiaries, exclusive of real estate taxes, other expenses and additional rents based on a percentage of sales in certain stores are as follows:

(In Thousands)

1977—$20,399	1982 to '86 —$84,051
1978—$20,168	1987 to '91 —$64,573
1979—$19,905	1992 to '96 —$34,557
1980—$19,560	Remainder—$ 5,948
1981—$19,169	

Rental expense for real estate (net of sublease income) in 1976 and 1975 amounted to $15,265,000 and $12,900,000 respectively.

The Company also, in general, rents its transportation equipment under cancellable leases. Such rentals (net) approximated $2,111,000 and $1,870,000 in 1976 and 1975 respectively. Other equipment rentals under cancellable leases approximated $2,070,000 and $1,800,000 in 1976 and 1975, respectively.

7. Retirement Plan

The Company's non-contributory retirement plan is available to all employees meeting minimum age and service requirements other than certain union employees covered by union-sponsored plans. The Company's policy is to fund retirement costs accrued, which in the current year, amounted to approximately $1,531,000 ($1,369,000 in 1975). As of January 31, 1976 total plan assets exceeded the actuarially computed value of vested benefits.

8. Wholly-Owned Realty Subsidiaries—Combined Balance Sheets

	January 29, 1977	January 31, 1976
	(In Thousands)	
Assets:		
Cash and receivables	$ 743	$ 552
Due from parent company	15,396	15,178
Fixed assets at cost:		
Land	9,729	9,220
Buildings and improvements	73,349	73,015
	83,078	82,235
Less accumulated depreciation and amortization	29,873	27,145
	53,205	55,090
Other assets	1,150	1,201
	$70,494	$72,021
Liabilities:		
Current portion of long-term debt	$ 1,467	$ 2,751
Accounts payable and accrued expenses	1,126	871
Deferred federal income taxes	2,440	2,410
Deferred other	811	844
Long-term debt, less current portion above (Note 3)	43,806	45,847
Parent company's equity:		
Capital stock	59	59
Retained earnings	20,785	19,239
	$70,494	$72,021

9. Replacement Cost Data (unaudited)

In compliance with a new requirement of the Securities and Exchange Commission (SEC) the Company's annual report on Form 10-K (a copy of which is available upon request) contains specific information on the year-end 1976 replacement cost of inventories and productive capacity (buildings, equipment and leaseholds) and the approximate effect that replacement cost would have had on the computation of cost of goods sold and depreciation expense for the year.

Current replacement costs are greater than the historical or conventional costs used in the accompanying statements, principally, because of the cumulative impact of inflation. These inflationary increases have traditionally been partially offset by operating efficiencies, changes in design and technological improvements which have increased productivity and contributed to increased sales.

Few standards have been established for replacement cost determinations and related disclosures. As a result, the amounts disclosed in the unaudited replacement cost note in the Form 10-K are based on substantial subjective judgments and estimates.

10. Summary of Quarterly Results (unaudited)

The quarterly results are included on page 14 with the Summary of Sales and Operating Profit Contribution by Major Categories.

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
ONE BOSTON PLACE
BOSTON, MASSACHUSETTS 02108

The Board of Directors and Stockholders
The Stop & Shop Companies, Inc.:

We have examined the consolidated balance sheets of The Stop & Shop Companies, Inc. and subsidiaries as of January 29, 1977 and January 31, 1976, and the related consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Stop & Shop Companies, Inc. and subsidiaries at January 29, 1977 and January 31, 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

March 14, 1977 Peat, Marwick, Mitchell & Co.

Directors

Directors of The Stop & Shop Companies, Inc., from left, standing: Lloyd D. Tarlin, Norman C. Cahners, Peter J. Solomon, Carol R. Goldberg, Norman S. Rabb, Julian I. Edison, William F. Pounds, William W. Wolbach, Robert J. Levin, Donald A. Gannon. Seated, same order: Albert S. Frager, Irving W. Rabb, Sidney R. Rabb, Avram J. Goldberg, Donald J. Hurley. Absent when photograph was taken, William Applebaum.

William Applebaum
    Lecturer on Food Distribution and Comparative Marketing, Emeritus, Harvard Business School.

Norman L. Cahners
    Chairman of the Board and Chief Executive Officer, Cahners Publishing Company, Inc.

Julian I. Edison
    Chairman of the Board, Edison Brothers Stores, Inc. – Specialty Retail Stores

Albert S. Frager
    Treasurer and Chief Financial Officer of the Company.

Donald A. Gannon
    Retired; formerly President of the Company.

Avram J. Goldberg
    President and Chief Operating Officer of the Company.

Carol R. Goldberg
    President of the Stop & Shop Manufacturing Company.

Donald J. Hurley
    Partner, Goodwin, Procter & Hoar, Counsellors at Law; Clerk and Secretary of the Company.

Robert J. Levin, Group Vice President,
    (General Merchandise) of the Company.

William F. Pounds
    Dean, Alfred P. Sloan School of Management, Massachusetts Institute of Technology.

Irving W. Rabb
    Vice Chairman of the Board and Chairman of the Executive Committee of the Company.

Norman S. Rabb
    Retired; formerly Vice Chairman of the Board, Senior Vice President and Assistant Treasurer of the Company.

Sidney R. Rabb
    Chairman of the Board and Chief Executive Officer of the Company.

Peter J. Solomon
    Managing Director and Member of the Board Lehman Brothers Incorporated – Investment Bankers.

Lloyd D. Tarlin
    Retired; formerly Vice President of University Bank and Trust Company, Senior Vice President of the Company.

William W. Wolbach
    Chairman of the Board, The Boston Company, Inc. – Financial Holding Company, and Chairman of the Board, Boston Safe Deposit and Trust Company.

Executive Committee:
    Sidney R. Rabb, Irving W. Rabb, Avram J. Goldberg

Audit Committee:
    Donald J. Hurley, William F. Pounds, William W. Wolbach